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# "Challenge of Economic Competition", University of Montana

Max S. Baucus

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Senator \* or Department\*: **BAUCUS**

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Record Type\*: **Speeches & Remarks**

MONTH/YEAR of Records\*: **January-1987**

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(1) Subject\*: **Economy**

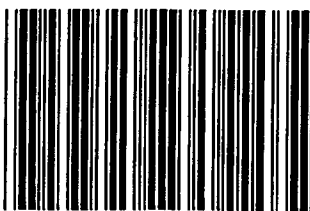
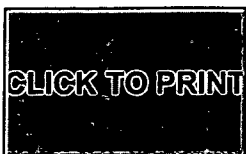
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(2) Subject\* **Challenge of Economic Competition**

DOCUMENT DATE\*: **01/05/1987**

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\* "required information"



BAUCUS

SPEECH BY SENATOR MAX BAUCUS

UNIVERSITY OF MONTANA

January 5, 1987

*not delivered  
trip cancelled  
because of  
snow*

Introduction

*Still a press?*

Thank you, President Koch ("Cook").

Today I want to talk about the most important challenge facing our nation and our state: the challenge of economic competition.

The Twentieth Century has been called "The American Century." Since the thirties, American industrial might <sup>and natural resource based economy</sup> ~~has~~ dominated the world ~~economy~~ and generated a steadily rising standard of living.

*that has changed. The world has changed and the*  
But there are no guarantees.  
*nation and state have not been able to*

~~In the sweep of history, nations rise and fall: Egypt, Greece, Rome, Great Britain.~~

~~America will not remain number one  
automatically.~~

*What commercial?*  
~~Just like the commercial says, "we have to  
earn it."~~

~~Unfortunately, we've been letting things  
slide.~~

Thirty years ago, Americans produced 60  
percent of the world's GNP. Today we produce 26  
percent.

Thirty years ago, Americans owned 26 of the  
top thirty corporations. Today we own 15.

Thirty years ago, we had a trade surplus.  
Today we have a huge, \$170 billion trade deficit.

We're importing one-half of our steel and  
one-third of our lumber, textiles, and cars.

These are not just abstract statistics.

They translate into lost sales, lost jobs, and a lower standard of living.

The median income of the average American family has fallen. It's now the same as it was in 1965.

Here in Montana, the signs of economic crisis abound. Virtually all of our basic industries face hard times:

- o We've lost 5,000 jobs in forest products and hard-rock mining.
- o We've lost 3,700 jobs in agriculture.
- o Wheat prices have fallen to their lowest levels since 1979.
- o We have seen a record number of farm foreclosures.

It's a sobering situation.

But we have only two choices.

We can throw up our hands and give  
up.

Or we can try to do turn things around.

### The Budget Deficit

At the national level, we must reduce the  
federal budget deficit.

The federal government is mortgaging your  
future. It's borrow now, pay later.

In six years, the national debt has doubled,  
to more than two trillion dollars.

By 1990, almost one-third of your income tax  
payments will go to interest on the national debt,  
which will cost \$160 billion a year. You won't  
get any government services for that money--you'll  
be paying off the debt we're running up now.

No generation has the right to bind another  
generation this way.

What's more, these huge budget deficits undermine our economy. For the first time since World War I, America has become a debtor nation, owing foreigners more than they owe us.

This drives up the value of the dollar, making imports cheap and exports expensive.

And it threatens to destabilize our economy.

There's no easy way to reduce the budget deficit. It takes persistent and, yes, painful spending cuts and tax increases.

#### Fair Trade

We also need to improve the international trading system.

Seventy-percent of American companies face foreign competition. But all-too-often it's unfair competition.

We're not simon-pure. We have our own tariffs and quotas.

But we still have the most open market in the world.

Our foreign competitors haven't reciprocated.

Instead, they've protected their own markets and subsidized the invasion of ours.

Enough is enough. It's time to fight back. Not by enacting protectionist barriers, but by tightening up our trade laws and demanding that our trading partners play by the rules.

The Canadian lumber controversy is a good example.

The Canadian provincial governments provide massive indirect subsidies to their forest products industry. Timber companies get cutting rights at prices as low as 10 percent of the comparable U.S. price. As a result, the Canadians



now have 33 percent of the U.S. softwood lumber market.

For years, we've asked the Canadians to change their policy. Finally, we backed our words with action.

I led the fight to declare Canada's stumpage price practices an unfair trade practice.

The U.S. industry brought a lawsuit.

The Canadians were facing a stiff tariff.

Then, and only then, did they change their practice.

*The* *in January (?)*  
~~Last week's~~ announcement of a 15% export tariff on Canadian lumber settles the dispute and gives the U.S. industry an important shot-in-the-arm.

Some people thought that we were being too hard on the Canadians, risking a trade war.

I understand their concern. Canada is a good neighbor and an important trading partner.

But we can't afford to play the patsy anymore.

Unless we get tough, we won't get results.

Competitiveness

At the same time, we shouldn't kid ourselves.

Reducing the budget deficit and eliminating unfair foreign trade practices are important. But the problem runs much deeper than that.

In the end, we have to produce our way out of the trade deficit.

Unfortunately, our competitors are increasing their productivity faster than we are:

--Germany twice as fast.

--France five times as fast.

--And Japan six times as fast.

Every one of our major foreign competitors has been increasing its competitiveness faster than we have.

Every one.

To reverse this trend and restore America's competitiveness, we must improve the quality of what goes into our economy.

We must increase our savings rate, which sank below 4 percent last year.

And we must increase the quality of our labor force.

The Importance of Education

That comes down to education.

Benjamin Disraeli once said that "The youth of our nation are the trustees of prosperity."

He was right. If we give our students the best education and training, America can compete in the 21st century. If we do not, America cannot compete.

It's as simple as that.

Unfortunately, the relative quality of our labor force is declining.

In 1983 the National Commission on Excellence in Education released a report called "A Nation at Risk."

The report said that our school system is being "eroded by a rising tide of mediocrity that threatens our very future as a nation."

Since then there have been 180 different studies on the condition of education in our country.

These studies show that our declining academic performance is taking a toll on our nation's labor force.

The average 17 year-old American student knows half as much math as the average 17 year-old Japanese student.

Japanese colleges and universities graduate twice as many engineers, per capita, as we do.

And when 19 achievement tests were administered to students from developed countries, Americans never ranked first or second, and ranked last seven times.

As a result, U.S. employers are saying that their workers can't handle complicated assignments.

And we are beginning to lose our edge in research and in high technology. This year, we may have a negative balance of trade in high-tech products, for the first time ever.

We need to make some dramatic changes.

At the primary and secondary levels, we need longer school hours, more school days, and higher teaching standards and salaries.

And at the higher education level, we must provide students with the skills they'll need to succeed in a super-competitive, high-tech world.

#### Education and Montana Economic Development

This is especially important in Montana.

Traditional <sup>rural</sup> industries like <sup>agriculture,</sup> mining and forest products will continue to remain the backbone of our economy.

But they won't produce the steady stream of new jobs that Montana needs to grow and prosper. For this growth, we must look elsewhere:

- o to value-added processing,

- o to tourism,

- o and to high technology.

Montana is not going to become another Silicon Valley.

But we do have a greater high-tech potential than we sometimes think.

At one time, the high cost of shipping to major markets prevented Montana from developing a diversified manufacturing base.

But with high-tech, the transportation situation is different.

Shipping costs aren't that important if you can pack \$10,000 worth of laser testing equipment

into a box the size of a coffee cup and ship it overnight on Federal Express, or sell information that is transmitted via satellite at 183,000 miles a second.

What is important is the availability of a highly educated workforce.

And here, Montana has a distinct advantage.

- o We have the seventh highest literacy rate in the country.

- o We have one of the highest high-school graduation rates in the country.

- o Twenty-five percent of the students at MSU are in engineering.

- o And UM has produced 22 Rhodes scholars-- ranking 19th of 3300 colleges and universities.

- o Montana has the 5<sup>th</sup> SAT scores and the 7<sup>th</sup> highest ACT scores in the nation.  
Our education system is a valuable asset.



We must strengthen the system, and make it even more relevant to economic development.

This is difficult to do.

The economic crisis has drained our budget.

Just as federal budget balancing requires painful choices, so does state budget balancing.

But in both cases, we have to understand priorities.

Today, our priority must be economic competitiveness. And that means education. As President Franklin Roosevelt said, "The school is the last expenditure upon which America should be willing to economize."